

Rail Discussion Meeting – Dave Plazak, Facilitator,  
Collins Plaza Hotel & Convention Center, Cedar Rapids, IA  
December 1, 2003, 1:00 pm – 4:00 pm

(Note: Participant comments indented.)

Participants were:

Larry Jons, Iowa Corn Promotion Board  
Paul Nowicki, Burlington Northern Santa Fe Railway  
Rich Bishop, East Central Iowa Co-op  
Katie Young, Cargill  
Dan Curren, Worley Warehousing  
Connie Thede, Muscatine Power & Water  
Lisa Longtin, Grain Processing Corporation  
Steve Masters, Transco Railway Products  
Bob Payer, East Central Intergovernmental Association  
Dean Wheatley, Linn County Regional Planning Commission  
Larry Jons, Iowa Corn Promotion Board  
Kevin Burke, Cedar Rapids and Iowa City Railway  
Dennis Miller, Iowa Interstate Railroad  
Dan Sabin, Iowa Northern Railway Company

DOT Staff:

Stu Anderson  
Craig O'Riley  
John Hey  
Peggy Baer  
Diane McCauley  
Mary Kay Reimers

Stu Anderson - We have been directed by the Commission to undertake the effort of looking at, in more detail, trends impacting rail systems. The DOT's original effort was to quantify those trends. As part of that effort, the DOT will have two roundtables similar to this, one here in Cedar Rapids and one in Ft. Dodge. We'll discuss these trends, have some bigger picture discussion about what the state can do, and a more strategic policy discussion. The department has also completed a study of infrastructure needs of Iowa's branchline system to handle heavy axle load cars. We also created a rail users advisory committee that has met several times during the last 12-18 months to provide input to the department. Over the last couple of months we've done a few things outlined in the draft Iowa Rail System Plan Update. We have drafted a stratification system, trying to stratify the rail system in Iowa. We would like to have some of your thoughts on that, and how that stratification can be used to guide future investment directions or strategies. We have also presented some

directions we want input from you on: 1) the need to preserve the rail system in the state; 2) the need to upgrade and enhance the rail infrastructure; and 3) the provision of rail passenger service in Iowa. We are having a meeting in Des Moines with some of the associations in Iowa, soybean growers, corn growers, and other associations that have a strong interest in rail transportation. We're having another roundtable in Ft. Dodge on December 10.

We will prepare minutes of the comments made at this meeting, which we'll share with you for accuracy. We will then share those minutes with our Transportation Commission and others of interest. A draft rail plan will be prepared defining these policy directions and investment strategies and define the state's role in rail transportation. Those will be incorporated into a long-range transportation plan for the department.

We are under the assumption you have read all the material that was mailed to you and are experts on that material. Our intention isn't to go through that upfront. Craig O'Riley is the author of most of the material so if you have any questions on any part of this material, you are free to ask.

Peggy Baer – Our hope is to get some concrete directions and items to come out of this that we can take back to our Commission. We want to synthesize everything we've learned into some actions, if there are appropriate actions.

Stu - This is a challenging step. The early effort was an easy step in terms of talking about the issues and where to go from here. But in terms of what can we really do as the state of Iowa and as the department, it gets to be more challenging. But this is an important step. We need to put something on paper now.

I'd like to introduce Dave Plazak. Dave is currently associate director of Policy at the Center for Transportation Research and Education. He's also an adjunct assistant professor of Community and Regional Planning at Iowa State University. Dave has a very good background in that he worked at the Iowa Department of Transportation, with Iowa Department of Economic Development, and with the Iowa Rural Development Council, so he brings a lot of experience to the table.

Dave – This is going to be an opportunity for you to talk rather than me, but first I want to add to what Peggy said. This last year there were similar focus groups and they were focused on strategic direction. This meeting today is about action. What are some specific actions that can be taken? Where would you like to go in the next 20 years? Where would you like to see Iowa go? Where would you like to see the Iowa DOT go? Where would you like to see partnerships go specifically?

We have six questions and this will be your opportunity for input. The subjects are: 1) Rail System Preservation; 2) Rail System Upgrading; 3) Stratification, identification of the levels of the rail system; 4) Rail Passenger Service; 5) What you think the priorities are of citizens and farmers in particular; and 6) Funding. We're going to identify actions, but how do we carry them out? Where do we get the resources to carry them out?

The first subject is system preservation. It appears if you look through the document, we may be at a crossroads where we really need to focus on preserving what we have left. Freight traffic is probably going to double in the next 20-30 years. We have a system that's shrunk considerably, the traffic is more concentrated, and freight traffic is growing very quickly. In terms of preservation, what specifically would you like to see the Iowa DOT do to preserve the rail network that exists today?

- One of the concerns we have, or should have, as a state is when a line is up for abandonment, it's typically the larger railroad that's abandoning the concept of not wanting it to be there, for whatever reasons. I think when you look at what some of the other states have done in preservation of some very low-density lines, we as shortlines could do a lot with the low-density lines that the Class 1s are not willing to do. But they're not going to want us there, being a competitor to a 100-grain car-load out. It's just counter to what their philosophy is on their own rail system that is very global and not really caring very much about what the state needs.

Dave - How do the Class 1s respond to that?

- I'm not going to say he's wrong, he's absolutely right. I would answer your question slightly different. Whenever you have a blanket policy that we're not going to allow any more abandonments, that's probably a bit heavy-handed and, alternatively, maybe some very thorough case-by-case analysis and process someone has to go through before it's abandoned would make more sense. There are still, in spite of all the abandonments over the years, the possibility that some lines will never be viable again. Time has passed it by or economics have changed. I would advocate for a more case-by-case analysis sort of policy.
- I agree. When some elevators quit hauling by rail, they build more storage away from the rail and then have a problem loading to rail. Rail got too expensive for them and the railroad wanted too many cars at a time, so they shipped by trucks. With some of these lines, because there are no elevators or there's nothing to haul, there isn't any reason to keep a line there. Should be case-by-case.
- I haven't seen too much of an impact to our customers from abandoned lines; most are in larger urban areas. The smaller system serves us pretty well.

- Our company just went through this. It's very expensive for a company like ours to go in alone and spend \$1M., so I think it's very important to try to get some kind of state aid to help these small companies keep a line going.

Dave - What kind of assistance would you like to see--purchase assistance or rehabilitation assistance?

- Anything would be beneficial. We did receive some funding, low interest or no interest loans, from the IDED that helped greatly. A CIBA grant of \$232,000 will increase employment by 20 people over the next five years, and we paid no interest. That was very helpful. The IDED actually pushed it and got it through. We need any kind of help to save a line.

Dave – There was some economic activity that motivated that project to make the project more beneficial.

- If we wouldn't have bought the line, we would have closed the company doors and that's why the IDED helped.

Dave – What does your company do?

- We repair railroad cars. It's a little difficult when you can't get them in.
- As far as economic analysis, whether you are going to abandon a line or keep it and actually fund it, are kind of the same. A lot of our smaller shippers here will testify that it's much different today. There are large unit trains, different elevators buying in different quantities, and the ability to ship to several locations. All those dynamics come together, whether the line will be profitable, whether you want to spend state funds or not. If you put state funds in it, perhaps it can't sustain itself after it gets up to a certain line. Some of our abandoned lines, no matter what you did to them, probably couldn't make it. It does have to go case-by-case. Whether you fund it or not, I think the evaluation needs to be directed towards economic development justification that it's going to be there, not just for tomorrow but for ten years or so. It's crazy to put money in a line that isn't going to be there anyway. I think the true test is when some of the shippers along those lines have business plans that are put together properly and are sustainable.

Dave – If you were going to ask the DOT for assistance, would you want something to help you purchase the line or would you want rehabilitation assistance?

- Again it would be case-by-case. In most cases, sustainability would be based on more funding to help keep the rehabilitation even or at a level where the railroad can provide the services the customers need.

- There have been two very dramatic changes in railroads in Iowa over the last ten years with the UP, BNSF and CN. Forty-six percent of the elevators in Iowa no longer have rail, and a predominance of their grain is going by truck. C&NW was a prominent delivery carrier in Cedar Rapids, but the UP's long haul is to the feedlots in the southwest. The restructure of the service and use of unit trains has gone from a 15-20-car shipment into Cedar Rapids to a 100-110 car train to the southwest. There's a second generation of shortlines that are more interested in those 15-25 or 50 car movements of grain to Cedar Rapids, but the feeder network is deteriorating. If shortlines had some of these lines, we could move the smaller trains. Until last month, the elevator hasn't shipped a car of corn out of Dunkerton in 20 years. Transco bought the line, we contracted to be the operator, and we'll pull ten cars a week out of there immediately. We'll probably generate 2,500 to 3,500 carloads of corn off that line annually. That elevator can thrive and grow but if it were left in the hands of the UP, they couldn't use it because of the rates and the service. Our state has to recognize you can't justify keeping a branchline if you're not going to give them service, equipment, and the pricing they deserve to be in business. It's a self-fulfilled prophesy. If Class 1s say we're no longer interested in that line, they can dry it up in a hurry. I think as shortlines we're taking the opposite approach of if we only had some of these, they would be thriving and we wouldn't be losing these small communities and great elevators, and the farmers wouldn't be ten cents a bushel short on their bid.
- Of the shortlines there are in Iowa, how many are capable of hauling cars weighing 286,000 pounds?
- There are a few that are--CRANDIC, Iowa Interstate. There are probably a few others that aren't as involved with 286. There are a few elevators out there on the Iowa Interstate loading 286. I'd say there's a lot of them that aren't, but I don't know how many carloads are actually moving. But obviously the infrastructure capability is enormous.
- If you can't ship to these points, why bother to make them competitive? The infrastructure itself is prohibitive.
- I'm sure some lines don't justify keeping them just because of the bridge condition and cost.
- In terms of the Class 1s, there's not a whole lot more they can do. They're pretty much an expressway through town. There are no on and off ramps except one or two. It's the shortlines that can make this economy competitive. The Governor made a token move by saying let's allow heavier trucks to haul grain from the fields to the elevators. Do we need to expand that rational in terms of allowing the folks who are not near the elevators or

rail giving them something to help them be competitive to get them to the rail sites that have the infrastructure to support them?

- You're touching on at least one element of a dilemma here between these highly-efficient unit trains, high-volume shuttle facilities where we shared an efficiency with the co-op and the owners versus the small elevators. The whole process of the shuttle elevator is enabled by the subsidy the truckers get for using the rural roads to get grain ever-longer distances from where it's grown to these central shuttles. It's a tough tradeoff between the growth and the impact on roads that can't handle these 80,000-pound or even heavier trucks. We were discussing earlier about a study in Kansas that suggests it costs about \$7 a mile to operate these heavy trucks on these rural roads. With that kind of subsidy you can justify the shuttles. Without that kind of subsidy to the truckers, would the shuttles make it or would we be using smaller carload volumes on branchlines? But as long as those are the economics, we're going to go with shuttle facilities, and it's up to the state to change this fundamental economics.
- That or up to the railroads to offer incentives that would give the folks who couldn't ship the heavier rail cars an incentive to do that. Although that's counterintuitive, you're certainly looking to drive efficiency by bigger volume. If you had someone on a branchline, he's kind of stuck--he can either do this or he can pay the differential to truck it. Everybody's in it for profit and it all depends on how you want to balance that. As far as tough decisions, that's kind of what we're here for.

Dave - Does anybody here feel Iowa should not be in the business of providing acquisition and rehabilitation assistance under the circumstances where a line would be economically feasible operated by a shortline?

- It seems that it would have to be based on a pretty good business plan. It's wrong to throw money into something, unless it shows some potential for profit in the future. Maybe there are some other assurances that should go along with that as seed money, as federal or state or even city money always has. You could do something to avail yourself of the funding, but it definitely seems like you would want to have some pretty good assurances because that money comes from somewhere, and we all know where it comes from.

Peggy - Probably over the last 25 years, the department, as well as the state, has had the outlook that the railroad system is a private system and should remain in private sector hands. Any involvement the department has had has been to minimize the impacts from the private market economy. We have had some suggestion that the state should get into the ownership position. Other states have done that, but this state has not. I have a hard time seeing this state

going that direction, but there is a whole range of things that are possible and that's what we're trying to hone in on here.

Dave – Let's ask that question. Should the state consider buying lines and leasing them back to operators?

John Hey - There is one thing we have to keep in mind. On a lot of these abandonments if the state owned them or leased them, they are still captive to the railroad that is abandoning them. Their only connection is to that railroad, so they are captive in terms of rates and service. How do you evaluate those types of things when they are captive to the railroad that is abandoning it? If you start that process, you may actually speed up the abandonment process because the railroads basically say they are going to abandon it, somebody else buys it, operates it, and they are still going to get the traffic and the business off that line, and they have just unloaded an asset that was probably not paying for itself. It clouds the issue.

- Are we restricting our prospective to agriculture? That is the train of thought I'm on. When you start looking at being captive, what can the state do to encourage facilities that allow a broader reach to these two pieces of steel? Different kinds of trans load facilities, intermodalism, all of that is something we really can't overlook. What the rail system conceivably can be is where we need look, in my opinion.
- If you look at any other kind of freight, there used to be a railroad depot in every small town where they could stop to drop off freight. Now you don't have that.
- What do you do to encourage the different businesses to come to Iowa? What do you do to bring a plastics company, a processor of some other kind of activity, or manufacturer into the state? I just hate the thought of seeing I-80 full; they're passing right through. Why not make this a desirable manufacturing location? Cargill has seen that, but they are in the middle of the economy where they want to be. Everything they need is available to them. If we can make the atmosphere from the distribution network such that it really encourages people to put their businesses here, it makes sense to do it.
- Yes, because Cedar Rapids lost a lot of major manufacturers over the last 10-20 years.
- That's progress. What can we do to circumvent that?
- Iowa is an inbound state for a commodity such as plastic by rail, but the outbound product is trucked. This doesn't go by intermodal as Iowa Interstate is the only intermodal carrier in the state. We're so close to Chicago and

Omaha that it's within trucking distance, so generating intermodal loads is extremely difficult unless it's a long-haul move.

- But isn't intermodalism basically the effect of having people pooling available equipment? Nobody wants to drive to Chicago, Minneapolis, Kansas City or Omaha. The waits alone make the international containers non-competitive. It would be different if you could load it heavy at West Liberty and bring it to a boat and move it off shore.
- But that inbound product comes by rail and you are deadheading that empty equipment out without an outbound load, and the price is just not affordable.
- Do we have good numbers of intermodalism as far as inbound and outbound shipments in Iowa? I know we wrestled with that at one other meeting.

Craig - The thing that we don't have a very good handle on is the truck side of things. From the rail side we have information, but we don't have data on someone who loads it up in Cedar Rapids and hauls by truck to Chicago. They might even be going to the west coast in the opposite direction. They load it up there and it goes by their door a day later. Those are the kinds of things that we don't have a very good handle on. We did purchase some information from Riebie Associates, which is a firm that measures different modal freight movements. That might give us a better handle on how much goes out of Iowa by truck, to an intermodal facility, or how much comes from an intermodal facility. You don't have much business actually being done here in the state where we take it from truck to rail or rail back to truck.

- That's interesting because if you look at the most dramatic growth curve of any of them in your information, it is intermodal.

Dave - If you look at the numbers at the national level though, a lot of that is goods being shipped into the United States. Empty containers may be going back. Some are just sitting in the United States. There is a big imbalance there. If you go to the Port of Seattle, you will see a mountain of them sitting empty.

Dave – It seems there is some consensus here on rehabilitation assistance and acquisition assistance if there is a good business case. What about having the state serve as the rail bank of last resort? Any thoughts on that? Buying up lines? Holding onto railroad right of way?

- You are talking about a lot of money for a line that may sit unused forever. What if you had to buy 10-20 miles? What's 20 miles of a line going to cost with the trackage and everything in place? Not sure we have any funds.
- I think the issue goes beyond just funds and whether or not there is a market there. I think it involves a joint effort between all the railroads, the Iowa DOT,



and the shippers. We need to look at what can it be and can there be enough traffic routed through this to make it a viable entity. Look at all the options here before you just abandon it and say the business doesn't justify it anymore. That also includes MPOs and everyone else who has an interest in that line. If we just keep abandoning lines, we will find ourselves in a position where we don't have the infrastructure we need. I have been working with the Rail Shippers Advisory Council in Washington and some of things we are looking at from a funding standpoint is just asking for the ability for rail to be considered for federal funding when it makes sense to do so. To get that federal funding capability, it takes the state DOTs, MPOs and a specific project to say this is what we think makes sense for our state or our area and how we would go about getting the funding for it. It is my understanding that rail was not even part of TEA-21 and couldn't get funding for rail as a part of these types of projects, and that is really where their focus has been. Let's allow rail to be considered for these types of projects.

- We completed a study this year. We took a line that has been abandoned for 30 years--the line from Vinton to Iowa Falls over Rock Island, track that should have probably never been abandoned. This is an example of one that should have been rail banked. We identified 26,000 potential rail carloads a year on the line. Everything on there is now trucked. There is a manufacturing company now in Grundy County that brings in hardwood logs and processes them into veneer going to the Orient. We took theoretical movements of these inbound logs and applied them to a theoretical rail move versus truck and the cost of moving that inbound product was reduced to 25 percent of what he is paying right now. The outbound, if they had the ability to load these containers at the plant and move them out by rail so that they go right into the ocean ships, would probably triple or quadruple the volume that this company could be doing commercially. So realizing you are not going to go out and spend \$1M. a mile to rebuy these rights of way and restore the lines necessarily, the approach we took was that the state puts a lot of lip service into a lot of areas that seem to go beyond economic rationality to a lot of business people. One of them is trails, greenways and a lot of these quality of life things that they think are so important. We approached it on the basis of having a rail, trail and utility easement corridor, say 150-foot wide corridor, where you have a branchline low-density railroad that could pick up those 26,000 carloads a year and you'd have a trail with that and offers the opportunity for local economic development that they believe they can get from trails. You'd have utility easements, wind turbines, and a multi-use corridor. Peggy's staff was gracious enough to look over the idea, and I understand they don't want to own these railroads or corridors. When it comes down to a point, with 25-year low interest financing from the federal government, if the state was able to put up just the risk premium, it's a \$79M. cost, but it had a return in 25 years of some \$1.9B. and a 13-1 cost benefit ratio. These are the types of things we need to look at before it's too late. What lines are left are probably not enough to be worth our while but if we

look at these corridors, there are counties with no rail at all. How can they ever expect any sort of economic development? I think they are dead. We've got communities along our line that the mean age is 63 years old. There are 200 homes in the community and 48 of them are for sale. There's no one to buy those homes. If we can't generate the economic development by making an industry or customer more efficient and more cost competitive, there isn't any hope for the small towns in Iowa. It's all going to end up going to Cedar Rapids. Des Moines, Sioux City, Waterloo and the rest of them are gone. They're dead. This week the State Shortline Association is applying to the Iowa Values Fund for some of the seed money to get federal funding just to be able to restore and rehabilitate some of these rail lines.

Dave - Anybody else want to comment on that?

- Is this around Iowa Falls? A new ethanol plant started breaking ground there a couple of weeks ago and there is no active rail line.
- It's pretty crazy to build an ethanol plant without rail service. It just doesn't make sense.

Dave – The last couple of years have been pretty challenging for private rail carriers and governments. Some of the rail assistance programs have disappeared in government because of tight money. Iowa used to have pretty extensive programs for rehabilitation and acquisition and for economic development projects. Let's think about not necessarily restoring what was there previously, but as the economy gets better what should be put in place. What kinds of programs should Iowa put in place in terms of funding upgrading for the rail system? Loans? Grants? Economic development programs aimed at specific industries? What makes the most sense today?

- Probably a combination of everything mentioned. A host of things from the rail side were state or federal funding, highway grade crossings programs, signal protection, and economic development incentives. This allowed a railroad to put a switch in to serve that new customer who wants to locate on the rail. Quite often they'll look at a site and see that the cost of \$100,000 or \$200,000 would establish a rail access into their plant and they might not be doing it. It's a combination of what you have mentioned.

Dave – So some flexibility is needed?

- We were having fairly good luck with state funding, rail funding, user funding as a combination, correct? But then the state funding disappeared.

Peggy - We have always relied on the state general fund. We haven't had that for the last couple of years.

- I've seen several projects where the railroad kicked in a percentage, as did the state and the users, and everybody involved benefited. It was better than trying to get money from one source, which wasn't very likely for some of these projects. Was our problem at the state level where it disappeared first?

Peggy - You all know the situation of the General Fund. Those legislators have to make some tough choices and they have priorities they have to meet and this has not been one of those. They do have a tough job. Because there's no gas tax for railroads or no specialized source of funding, we rely on the General Fund.

- It seems like a short-term answer to a very long-term problem. As I look at it, as you have roads disappear all that traffic goes to other roads, and we spend a lot more money trying to maintain those roads. We lose manufacturers just the same as nationally. If you don't have rail service in a small town, what kind of manufacturing plant are you going to build there? So we're going to lose the jobs, that's why we have towns with an average age of 60 years or older. Somebody aged 30-40 with a family is not going to stay there if there's nothing happening. Maybe we need to have some legislators get creative or look at the bigger picture.

Dave – I want to make sure I hear from a variety of you. We have heard from a Class 2 railroad. Let's hear from a smaller railroad. What would an ideal state assistance program look like? What would be the elements of it?

- As a shortline, the very delicate nature of the budgeting process lends itself to a solution that might otherwise not come to you. But we're advocating the state generate the funds just for use of deposit funds so we can qualify for federal loans, in essence leveraging about \$20/\$1 ratio. If five percent of the project could be obtained through the state to cover risk deposits, 20 times that can be used under the RIFF (Railroad Infrastructure Financing Fund) program to be able to create some monumental opportunities. If \$10M. was allocated to the railroads to cover these risk deposits that would leverage \$200M. worth of rehab funds for us within a year. As far as state projects in the past, the one difficulty we had is coming up with the match. We've been very lucky to get the last bit of some federal grant funds that were available. There's a 30-70 split and when you're doing a \$2M.-\$3M. project, you have to come up with a match of \$1.2M.-\$1.5M. We don't have that kind of money just lying around. It really makes it extremely difficult for a shortline to even use what's there under those rules.

Dave – How about a Class 1 railroad?

- I spent a lot of time doing federal government affairs work for our company. I know you are really focused on state issues but I think the state of Iowa,

Senator Grassley in particular, can be influential on federal issues. A menu of things was mentioned. The federal level is where the leverage comes from and the budget situation is not quite as severe as it is here in Iowa. There are changes needed in the RIFF program. We've been talking about it for two years and it hasn't been done yet. We've got to keep persisting to get those changes made. There are two, soon to be three, tax credit bond proposals that have been introduced in the Senate that would bring enormous amounts of capital to the rail industry for upgrades and rehabilitation capacity expansion, etc. The rail industry has suggested accelerated depreciation or tax credits for maintenance for Class 1s, as well as the shortlines. We haven't talked much about this as an industry, but some kind of a trade-off analysis needs to be made before the state adds another lane of highway to an interstate highway; some kind of trade-off that looks at the rail alternative before that kind of highway investment is made. That's the range of options we need to have available for the states to use to help the railroads in Iowa or whatever state it might be.

- Focus on passenger service and Amtrak too.
- They passed the Iowa Values Fund bill last year. Why can't they use some of this money to help the railroad rather than building rain forests or recreation areas in Cedar Rapids, etc. It looks like it would make a lot more sense for it to be used to build railroads to get more business that's going to pay some decent waged jobs in town instead the ones that pay minimum wage.

Peggy – There is eligibility under the Values Fund for rail projects.

- It's probably a struggle to make that popular, for those nonusers, those who would rather have a rain forest.

Dave – How aware are people that it can be used?

Peggy – I think the railroads are aware. It has to create jobs since the whole Values Fund is jobs driven.

- This is a catch 22 in that it sounds like the funding assistance is required, but the markets have to be there and whoever is making the investment, be it state or federal, or private sources, have to feel confident that it's a good investment. As for the risk deposit fund, I guess we hesitate on subsidies just from the standpoint that things should stand alone. But they don't necessarily and that gets back to attracting the markets and making sure you have the market there, attracting the jobs, attracting the manufacturers, making the things happen so someone wants to make the adjustment and you know that investment will pay off. I like the comment about a tradeoff study before federal money is put into highways. It would be a good thing to analyze the tradeoff and put it into rail instead. We need to do things to make sure we

keep rail available for shippers and somehow retain some competition in the rails as well.

Dave – I'm going to ask you a question that's not on my list. How much promotion of rail shipping does the Department of Economic Development do now for Iowa?

- I'm not aware of any.

Dave – Do they specifically target industries that would be predominantly rail users? I don't know.

- We met with the department recently about ways to jointly do economic development promotion and we came up empty. We left the meeting without any kind of a plan. On the other hand we had a similar meeting with folks in Illinois and on Thursday of this week we have 24 economic developers from communities around the state of Illinois going to our headquarters in Ft. Worth for a two-day seminar on how to jointly promote rail investments, how to use rail to attract new businesses to a region, and so on. I'm not being critical of the Iowa economic development group at all, but at least at our company we've made progress with Illinois. We would like to do a similar thing with Iowa. We just haven't found them quite as responsive.
- We're working with a manufacturing company to locate on our line and over the last two years as they were developing their strategy, they had 17 proposals from Iowa counties, and 16 out of the 17 didn't mention rail as even being a factor.

Dave – So maybe there's another type of program besides a funding program that's a little bit lacking. This may be something to explore.

- It does seem that the study of trying to put more on the rail, take some off the highway, just isn't happening. More of that would probably be helpful.
- I'm a planner and we deal with the planning for the major street system. In this metropolitan area, how can I consider the cost benefit of that against an industry we have no control over whatsoever? If the money goes to a rail improvement, it's a private business and private businesses can choose to charge whatever they want to to use that line. Eventually the money could do nothing...the same amount of traffic could potentially end up on the road, and we know there's no control over how the private business chooses to charge or conduct it's business. It seems to me it's important to have some kind of proposal or business plan to go with funding opportunities.
- Definitely, we need to have more of the railroads say we would like to move some of this traffic from highway to rail and by doing so, we justify the

additional dollars we need to upgrade our rail. Rather than building a new highway, maybe we should put the money into upgrading the rail infrastructure as it is.

- I certainly agree it's a great goal to get congestion and heavy traffic off our roads and highways. Trying to do an analysis of highway versus rail, as a planner I'm not sure how I can do that effectively without some way to show the money going to rail is actually going to provide some benefit.
- I think it requires commitments, contracts, people of all parties committing themselves to a project like this to be able to justify it. But there's no more assurance the traffic will all move to that additional lane other than there are no other alternatives. That's where it's going to go. That's unfortunate. I tried last year to start a rail shippers group in Muscatine. They say you don't have rail, it's not here, it's not there when you want to ship, we're not intermodal, it's easier to go truck, we don't even think about it. Rail needs to go out there and do their job and say, "This is what we can do for you", and come up with some projects to start the ball rolling, and get some commitments and funding, and find some ways to improve this. Otherwise we're going to be looking at an Iowa that everybody goes around. There's just not going to be anything left here.
- That's a very good point. A month or two ago we met with the DOT Commissioners here in Cedar Rapids. The thing that was very intriguing was when the truckers in the group were discussing the new hours of service law going into effect next month, they said they were going to have to double the number of rest areas along the interstate so they can have a place to park for rest. Now what benefit does a truck going down I-80 have in the state of Iowa? But there's about \$380M. in federal money that comes into the state and 25 percent of that technically, legally could be used for flexibility in modal use, but the asphalt lobbyists and the highway builder lobbyists have so much control of the way these monies are spent, how can we compete with that? The Kansas study showed the state pays out 17 cents in net cost in Iowa road deterioration and build sooner costs.
- Two numbers struck me from the Kansas study. The average road damage cost per truck mile was \$7.15. That's a \$700 subsidy for a truck moving 100 miles on the state highway system. That's incredible. Imagine what shortlines could do with a subsidy like that. They also suggested if the branchlines and shortlines in the state dried up, the total road maintenance cost would increase by \$57.8M. per year, while generating only \$288,000 in additional gas tax revenues. That gives you a sense for the subsidy and what we're up against. It was mentioned we should let the markets work. The markets are so severely distorted, the inequities our industry faces are more than we can overcome. Those are incredibly outstanding numbers.

Dave – How many of your companies have participated in state-funded rail programs before? What was your experience? What would you have changed or added to those programs?

- I was involved in a couple of them recently, one in central Iowa. I'm glad the money was there because I'm not sure the trackage would have survived much longer. It actually worked out pretty well. The combination of things, the help we had from the railroad in doing the applications, their portion of the funding and our portion. Our portion was very minimal under the circumstances and I'm not too sure if the state's was too large either. There was about 13 miles of rail that is now at the end of the line. Ten years ago or less that line was closer to 30 miles long going all the way to Pella. Pella probably has a very limited amount of manufacturing, but they have chosen to go all truck. So what does that do to the truck expense on the highways instead of using rail?
- About two years ago Peggy called me when the last bit of grant funds was available. We didn't want to go through the application process because it was like writing a Chicago phone book. Knowing what I know now, it's certainly not so difficult. The most difficult thing is the requirement of matching funds to raise \$1.2M. out of operating funds to match the \$2.2M. we got from the grant. I have to say if we hadn't done it, our company probably wouldn't exist today. In fact, it deteriorated so badly and our costs would have gone up so much more that people like Rich wouldn't have been able to use the rail anymore. Although it was painful, we wouldn't have made it without it.

Dave – You're talking about federal funding?

- No actually the state of Iowa did a huge loan to Iowa Interstate when they were formed more than 20 years ago. They participated with a number of things, like shipper loans. Another large one we did was to move our yard from downtown Newton outside of town to benefit Maytag and the city of Newton. A large project with CRANDIC upgraded our interchange in downtown Iowa City that everybody appreciated. We participated in about everything that's been on the table the last 20 years.

Dave – if you could have changed anything, what would you have changed?

- I think things have gone fairly well. The state has been very pleasant to work with.

Peggy - Prior to 1991 when we put out money as loans to Iowa Interstate or other companies, the loan payments would come back into the fund and we could reuse them. It was a self-perpetuating fund. In 1991 those funds were all diverted to the General Fund and since then we have not received any of the loan payments. While that's good for the General Fund, it really takes

what was a small but useful program and ends any ability to regenerate money. So that whole revolving loan fund concept we had back then is gone now.

- And the regular fund has gone also in the last two years, so the state funding just doesn't exist.
- You had asked about one thing we would change and Peggy just touched on it. The Revolving Loan Fund should be a self-funding mechanism for railroads and somehow that needs to get reestablished.
- We participated in upgrading our lines to a 286,000-car capability. We also have had numerous rail economic development funds for projects for new customers. It's been all been very positive.
- The CIBA (DED program) experience went very well. The reason it went so well was because of the local involvement and Fayette County. They did all that work for us so it made it go a lot smoother.

Craig – I would like to backup to a couple of projects that have been outside the norm from the railroad standpoint, one of them was dealing with the bridge problem in the Davenport area and another one was moving the interchange facility out of Iowa City. Those were funded with non-traditional rail funds the Clean Air Attainment Fund.

- The bridge actually is owned by the Corp of Engineers, the old Rock Island Bridge over the Mississippi River. To run double stack containers we needed to raise the cross braces on the bridge. We used the ISTEA funds as a Clean Air Program project which takes more trucks off the highway when they're running intermodal units. We had to do a study on the interchange at Iowa City, as well as the city of Iowa City and Coralville to identify potential reduction in the fumes from the automobile. They sat for quite a few minutes waiting on the trains to clear the crossings. That was the justification.

Dave – Any other thoughts on programs? What would you not like to see? Are there things you definitely would not like the state of Iowa to do?

- From my standpoint as someone involved with MPOs and seeing how the state works, I'm much more comfortable with the state making these kinds of decisions with state staff rather than trying to push it down. I think there is more expertise statewide, and I think better decisions are made at the state level in many ways, especially with a limited resource program. I've seen some real successes with state staff running programs. I've seen some not so great work done where we tried to do some innovative things like bringing in committees to make decisions. My experience is the DOT staff does a much better job than trying to break it down farther.



Dave - Other thoughts on that, directions you don't want to see?

- I guess it's not the right answer to the right question, but you know the CMAQ funds that Kevin and Dennis worked with? There's probably a lot more that we can be doing, but we also have to run a railroad. The thought of sitting down and trying to put together an analysis of the savings is slightly beyond the realm of reasonability for a lot of us small independents to want to take on. The state could help us a lot with the expertise, the formulas, or the format that could be used, and break that down into a real novice approach so that we can plug in the numbers, like the truck miles saved. It's going to use some accepted standards and software to help us quantify this because there's a lot we could be doing right now if we just had the resources to do it.
- I know we have CMAQ applications and some of that formula information from DOT, so some of it is there. It may not be applicable to the bigger scope things like you're involved in as opposed to the smaller projects at the entry level.
- We can't do that without a group like yours going with us.
- It was suggested there may be expertise so you could take advantage of it.

Dave – Any more thoughts on program update?

Peggy – Close to 30 years ago when we were setting up the rail program, people made a conscious decision to avoid operating subsidies and to focus on putting the rail assistance money into the track, the ties, and the rail. In hind sight that's proven to be a pretty good decision because if you get the materials in the track, it doesn't matter what the railroad is. All railroads have changed ownership over the years. But those materials are still in the track serving Iowa shippers. I think that was a good decision back then.

Dave – Let's discuss stratification. The DOT has developed this stratification map to guide in setting priorities for programs. It's a planning tool to help set priorities for system preservation, upgrading lines. The map basically identifies lines of national, multi-state, regional and local significance. Does it make sense to have something like that? How could it best be used? Good concept?

Craig O'Riley – Those lines of national significance were identified as important to the national defense, like the BNSF line across southern Iowa. In addition, we looked at other mainlines that were basically through routes for the state based on the amount of usage they got. Those were the two criteria that developed the national system. Rail lines of multi-state significance have density between 5 and 20 million gross ton and connect Iowa with some major gateways surrounding the state of Iowa, such as Chicago, Kansas City, Minneapolis.

Basically what we have left from that was our branchline system. The remaining lines were regional and local significance based on multiple outlets. Those with multiple outlets were moved into the regional level, those with only one outlet or one direction were put into local significance. Some of those lines served multiple counties. Branchlines that would provide service to several counties were moved up into the regional level. Those that would be more of a shortline in terms of mileage were left in the local level. The primary purpose of doing this was to group rail lines that would have similar characteristics to identify what our role should be, whether it be rehabilitation or acquisition, or saving that right of way.

Dave - Does this make sense? How would you see it being used? Good concept? Useful concept for managing programs for planning?

- It shows great understanding of the relative role the different lines play in the state. I think that's where you start building programs, by understanding what unique role the various lines play. I hadn't seen an analysis like this in another state and I think it's very well done.
- The only concern I have is when you look at the national network and say that's the priority for the state to be concerned with on programs, it seems backward to me.

Dave – I'm not sure he's saying that. What would you see the state's role on the national level be?

- I see the lines in blue are just like I-80 or I-35 for a lot of reasons. They go beyond the state of Iowa. I would argue that if you look at it just from the importance of industry in Iowa, the regional lines are probably more important to the state for economic development and commerce than the national lines. With all respect to BNSF and UP, they go through here but they don't do a lot here.

Dave – Actually that's exactly the kind of comment we want to hear.

- Just because the CRANDIC only serves Cedar Rapids and Iowa City, we haul trains that connect with Burlington Northern and other railroads taking us outside the state, so this will reflect that. There are other things people have done through marketing and other concepts, whether it be 100 carloads of corn going to Texas or just our railroads dealing with other railroads on a daily basis through contractual obligations. Just because you don't go there yourself, you can get there through another railroad.

Dave – So it's a little bit artificial in a way.

- Yes.

- It's clear from the chart that the regional and the multi-state lines handle the lion's share of the commerce and carloads in the state. It's not our transcontinental trains that criss-cross the state and that's how I interpreted the proposed actions for the national lines. Craig said we're going to assume it's going to be here, there's nothing really to do to prop those lines up. While it would be great to get a big infusion of state money to fix those lines, it's not going to happen and it's probably not necessary. So the focus should, in my judgment, be on those feeder lines that bring us business from a national line's perspective.
- An industry that's looking at developing a mega plant is very concerned about: 1) How tough would it be to establish an industry on Union Pacific's mainline today with 65 or 70 trains a day? The last thing UP needs is another way freight trying to switch an industry along the line; and 2) We have industries coming to us asking how many connections we have. If they're on the UP or CN, they would be captive, then they control them as far as rates and service and equipment is concerned. But they're on the CRANDIC or the Iowa Interstate or Iowa Northern or any of these other shortlines that are relatively strong in Iowa, they've got multiple connections going to compete for their business. If we're establishing a priority of importance to the state, I think certainly the regionals are the most critical element the state has, as defined here.
- I would agree with that and I would also agree with the competitive discussion. This map doesn't tell me where there's any competition. If you don't know this is dictated by the Class 1, for a shipper that's captive the alternative is still going to be the truck nine times out of ten, unless you can use a shortline to get to gateways to access the Class 1s. I think it's important and would like to see it shown where the competition is, where it isn't, and focus on some of those areas that need them.
- The line I live by runs from Cedar Rapids to Manchester. The tracks have all been redone. They put new ties in and re-rocked the whole line. To my knowledge there's not an elevator that's using it for hauling corn. Do the railroads contact these elevators and let them know what the rates are to try to get them to haul on it?

Peggy - I think the railroads don't do much marketing anymore, especially the big guys. They just kind of wait for somebody to come to them.

- I think Larry's hit the nail on the head. Canadian National, owner of that line through Central City and Canadian National, has about as much interest in hauling a car of corn to Cedar Rapids as that door over there. If you're on the shortline, every elevator on that line would be shipping corn to Cedar Rapids, but that's the difference between where the Class 1 cost structure could be

and their priorities, because that rate, that equipment, and that service isn't going to be there for that Iowa branchline. The only reason that line exists is for the overhead traffic going between Cedar Rapids and Manchester to feed their mainline. It's a wonderful example of what the alternative is--farmers direct truck to markets and that kills the elevator because he's no longer handling the grain. The farmer's taking it in a semi himself and is breaking up the roads in Cedar Rapids. You've got all these trucks that are probably losing money for being there in the first place and not using rail.

- These comments would imply that Class 1s are terrible marketers. We're not bad business people. The fact we survived in business 152 years is fairly impressive, I think. It is true we can no longer afford to and justify having a field marketing staff. Dan and I talked on the phone last week about opportunities we missed by not having people out on the ground here and that sort of thing. It's no mystery that shortline railroads do a better job of developing opportunities with smaller online businesses. Our focus is on big unit load customers. That's where we make money. The loose carload type of business, the one car here, one car there or ten cars here, ten cars there increasingly is where we don't make enough money to justify putting a lot of time and effort into developing that business. It's just the fact of our economics. We make money hauling trainloads of coal, agriculture commodities, intermodal shipments and not on a carload here and a carload there.
- The shortlines are an extension of the Class 1 marketing department.
- That's the model I think may be the focus for the future.
- I know being on the Iowa Corn Promotion Board, there are times when we send several hundred jumbo cars down to Mexico with corn from Iowa, 600 cars at a time, but they're all jumbo cars.

Dave – Would it make sense, in some cases, to proactively encourage the transfer of lines from Class 1 to shortlines?

- Everything is for sale at a price.
- Look at the map, you don't see any blue lines that go out there and stop.
- That's a good point. I was at a Burlington Northern shortline meeting about a month ago and the president said within the next two years BNSF will sell or abandon about 3,000 miles.

Dave – We've been talking about freight mostly and now I want you to think about rail passenger service. There's a lot of talk about it right now, a lot of interest in rail passenger, high-speed rail, the future of Amtrak, Midwest high-

speed rail, all sorts of topics out there. I just want a little bit of discussion on 1) how important is rail passenger service system development to the state of Iowa, and 2) how important is Amtrak to the state of Iowa?

- I think that most people use Amtrak in Iowa to just get out of the state and go other places.

Dave – How important is rail passenger service in Iowa?

- I'm a strong advocate of Amtrak, particularly from the standpoint that our country needs a very strong transportation policy that should include passenger rail, but for the state to try to do anything about it is really the tail wagging the dog. I think the best the state can do is advocate appropriate funding toward passenger rail and maybe hope for the best in the future. September 11 showed us there needs to be an alternative to flying everywhere.
- We need to run Amtrak through the cities where the people are. I think that was the first mistake made 20 some years ago. Otherwise it just becomes a through state, we're not going to stop to pick up passengers in Iowa, we're just going to whip through just as fast as we can to get on to the next place.

Dave – What would you like to see the state do in this area? Can the state really do anything? Should it do anything specific?

- I think it's been proven that passenger service, if it's going to run in Iowa, it's going to have to be subsidized. It won't stand on its own two feet. Iowa Interstate seems to be the designated route through the metropolitan areas where the people are. We're more than willing to operate it, but it will have to be subsidized.
- You're going to have to completely rebuild the usage, the need, the want, and the desire to use it. It's been nearly 30 years since you had rail service through the central part of Iowa.
- What is the real need for passenger rail? The only rail systems that are at all solvent have a very defined need, like the rail passenger servicing many metropolitan areas. Rail passenger in Iowa is nostalgic.

Dave – Is the current Amtrak system competitive? What role does it play?

- Have you ridden Amtrak lately? It's hideous.
- I've never understood the extent of support for passenger rail in Iowa other than the extreme hard-core group who wants it at all costs, as long as somebody else's money can be spent to develop it. I'm also nostalgic about

growing up in small town Iowa. I sat in on a group directed by the Legislature and run by the local council of governments, looking at the potential for passenger rail between Cedar Rapids and Iowa City. Although I-380 is becoming so congested, there is just no case to be made for passenger rail in that corridor. It's so expensive, and I don't understand what the big push for passenger rail is in this state if you understand the cost involved.

- On that basis, we wouldn't have any trucks if you are worrying about cost.
- We have the environment that we have. We have the situation we have and we have to deal with that. You can't magically turn around policies that have been in place for 20-30-40 years. We have to deal with what we have.
- I was involved in Minneapolis and St. Paul trying to put in a rail system between the two cities and it failed miserably. I was also on a study with Mitchell Field in Milwaukee to make that a satellite field for O'Hare and that failed miserably. There were boatloads of money poured on both of those. There's just not a defined need for either of them.
- If it's a nostalgia thing, it becomes something else, but if it's a service thing like taking additional autos off the road, then the conclusion of the study between Cedar Rapids and Iowa City was run buses up and down I-380. You can take tons of cars off the road and the cost is almost negligible. It's almost nothing compared to trying to do passenger rail.
- Going back to his comments about Cedar Rapids/Iowa City study, I was part of both of those. We've actually have had two in the last 15-20 years. Both of them showed there wasn't enough interest to go from Cedar Rapids to Iowa City. People didn't want to give up their cars, our track would have to be upgraded, we'd need to go 60 mph, our signals and crossings would need to be upgraded, a tremendous amount of infrastructure work. It made it almost impossible. It did show there's a possibility for North Liberty to Iowa City, for the people who live in North Liberty and work at the University of Iowa Hospital. But they would have to have 24-hour service. In the United States, the people's perception is we want to have our own car, air travel is very cheap, and it makes it difficult for people who want to use rail at this point. As far as across the whole United States, it looks like people don't want to do it. From a rail perspective, I'd love to have people pay me to do it and I'd love to give them a ride. We've done some excursions for a week at a time and our insurance was so costly for a week, if you want to make any money you would have to charge \$50 a ticket and we didn't want to do that.
- The driving force would probably be the price of gas. If the price of gas went up to what the people are paying in some of the foreign countries, passenger rail service would go over very well here.

- I think the business world today is such a fast moving pace that the airlines are much better at moving from one place to the other for any distance. Rails are nice for vacation but it doesn't get you from one point to another fast enough to do business.

Dave – Does anybody feel real differently about this? I'm getting a lot of negative comments. Anybody real positive about rail passenger?

- From a nostalgia point I'd like to see it too, but what gets me is we already have Amtrak and I don't think it went through the right place in Iowa. So it became self-defeating for anybody wanting to use it.
- I think that's an interesting point. It's pretty hard for anyone to get enthused about it when there's no exposure to the option at all. Just this weekend I took my son to Mt. Pleasant to ride the Zepher back to Washington and there was a parking lot with 100 cars and half of them were Linn County. Someone cares about riding the train. But you have to put a lot of effort into just getting to the train now so a lot of people are not going to fuss with it.

Dave – What should the Iowa DOT be doing in terms of rail passenger then?

- If we're going to run it, get somebody in there on the federal level and say let's change the route, like we should have done 20 years ago.

Dave – How do Class 1 railroads feel about Amtrak?

- There's a sense that we're not appropriately reimbursed for out-of-pocket expenses we incur and we certainly are not reimbursed on a market basis for the capacity that Amtrak takes. That said, the devil we know is better than the devil we don't know so proposals to privatize the system or bring in franchises, we're opposed to. We get excellent liability protection in the event of a derailment or whatever under the Amtrak statute or legislation. So we're reluctantly accepting of the existence of the status quo.

Dave – If you were to take your hat off as a shipper or railroad and you were a farmer or a citizen of Iowa, what would you see as the top priorities for rail transportation? What would you like to see the state do? For instance if you're a farmer and you're interested in getting the best price for your grain, what makes the most sense for the state to be concentrating on.

- That's a real difficult question from this side of the state because we have the river that is much cheaper than rail. Rail is more predominant the farther west you go. I think it has a lot to offer but how can we get that back east to go down the river? On the Class 1s how much grain do you have going south to New Orleans? How much is going to Mexico? We've got a lot of markets we don't have direct access to. I think the department needs to focus on

intrastate transportation as far as upgrading the railroads to get to the Class 1s so we can export. It's very difficult from this side of the state because of the river.

- The waterways are probably more heavily subsidized than the highway system.
- When you look at it that way, railroads are at a very big disadvantage because every other transportation is subsidized very heavily, including the airlines. I've come to believe that's a very true statement and from listening here I find it's very true. But at some point in time somebody made that conscience effort that railroads would not be subsidized, or receive very little subsidy. Was that wrong at that time? Is it wrong now? Should it be changed? Do we need to subsidize rail more and the others less? I don't have those answers.
- We estimate that barge operators pay about 12-14 percent of the cost associated with operating and maintain the waterway system. It's an enormous subsidy.
- I've been working on the locks and dam, and that's a huge subsidy. If the infrastructure in the United States is going to survive, we need to make those improvements on lock and dam, rail, whatever. I regret that I don't have the answer but I can see the dilemma that the rail has in that there are no opportunities out there for subsidizing. With that said, I'm not a great proponent of subsidizing anyway, federal or state monies. I think that if you can do it through economics, we're better off. It's more sustainable.
- We need the railroads so we can export down to Mexico. Mexico is our number two customer as far as buying grain for the United States. Other countries in South America are all building big infrastructure services so they can export their grains, but the United States doesn't seem to be working on that. Maybe they do need to subsidize the rails to help them build a better infrastructure to move our grain better. I don't know, but I was in South Korea this spring and they just finished a new railroad that goes from South Korea all the way through North Korea up to Europe. Maybe we need to think about doing something to help get a better infrastructure going so we are using the rails more.
- Not all of our grain gets exported.
- No six percent of it is fed to livestock.
- And a lot of it ends up in specific uses in processing plants in Illinois, Cedar Rapids. Now we have the ethanol plants popping up. There are companies



that have probably spent many dollars and a lot of their future to upgrade and then have an alcohol plant come up within 5-10 miles of them.

- But from the alcohol plant you have the distilled dried grains (DDGs) that need to be exported. They are exporting that down to Texas and places like that right now.
- Possibly some of it is and possibly some of it isn't. But if you take X million bushels and run it through here and you've got the alcohol, how does that get out? It might end up getting trucked some place or pipelined or who knows what they do with it. When you take any company, private, cooperative or otherwise, if they made a huge investment on a facility here and somebody sets up across town or some place not too far from them, it puts the bite on them. If they could back up, they would say there's no way they would have made that kind of investment. So when somebody is doing some of these things out across Iowa and the northwest quadrant of Iowa is rail bound, they have very few places to truck grain to. So if they end up shipping some place or another, maybe they had an alcohol plant and maybe they don't. Each railroad across Iowa has different end points servicing different market places. You pick a spot out here and there may be two or three railroads within 20 miles, one of them might take them to the gulf, one to the northwest, the other to the river. That market is going to pull either way, so exports possibly are not the answer. How do we get the split so everybody gets enough and everybody's competitive.
- I think one of the points these gentlemen are all saying is that the farmer just wants market options. For citizens, I think the only thing they care about for railroads is making sure they have someone to complain to about the crossings.

Dave – So citizens might care about issues like rough crossings and blocked crossings.

- A lot of livestock is raised in northwest Iowa because they don't have markets for their grains. So they have the big hog confinements, a lot of turkey and egg places. Those products all have to be transported too. There's more than just hauling grain from the farm, there are a lot of other products that farmers do produce that need to be transported.

Dave – For the rail carriers, what does the average citizen ask you the most or complain about the most?

- In Cedar Rapids we have certain times we can't be downtown blocking traffic. Every time I go to speak to a group, it's almost always "Why do you block the crossings so long?" or "Is it true they can be there only ten minutes?" It's

usually blocking the crossings or the condition of the crossings. Sometimes it's the graffiti on the sides of the cars.

- Most recently it's been the bridges in cities like Davenport and Des Moines. They'd like us to paint all the bridges.
- The point about the ethanol plants....it's made a big impact. It's one of the growth areas. Previously I was involved with people who were involved in manipulating carbohydrates. The Cargills and GPCs of the world are certainly deeply involved in those things. What can the state do to encourage investments by other bigger companies to help support those types of activities, like altered grain.
- If the energy bill gets passed, that's going to make a big improvement on the amount of ethanol that's going to get moved and a lot more plants being built.
- The citizens want to maintain their quality of life and not be held up at railroad crossings. They want to keep their jobs, they would probably be happy to have new industries come to their communities, and to Iowa. To do that you have got to have rail. It would be every shippers dream to have two shortlines serving their community but obviously after the things we talked about today, that's not feasible. But supporting the shortlines, I don't know how the DOT delivers the message to citizens about rail because it's such a behind-the-scenes part of the citizen's life. I think that whatever the DOT can do to continue to support the industries that are here, by having whatever competition there can be for the rail and possibly attracting new industries by having the infrastructure to support is something the DOT could do.

Dave – Do you think there's a core understanding of the citizens of how important railroads are?

Peggy – This brochure is one of our efforts. Rather than trying to market each individual railroad, we're talking about the importance of the system to the state.

- In all fairness to the DOT, I think we as an industry are more to blame than the DOT because until last year we didn't even have a lobbyist for the shortlines and regionals in the state. We've gotten to be more proactive but it's probably going to take us five years of a lot of hard work before we can get a small amount of dollars from the state. There are generations of people who have no experience with rail of any kind. There's a generation that's just truck oriented. We have to accept the blame more than anyone as an industry.
- I spoke to a graduate level economics class at the University of Illinois and my first slide talked about mode share of intercity tons miles, how freight is divided between truck, rail and intercity barges, etc. I asked them what

percent they thought moved by rail. The answers were 10-15-20 percent. The truth is it's about 42 percent, far more than trucks. Trucks are about 27-29 percent. But here are students studying the economics of transportation that should know this in a heartbeat and they were clueless. So if they don't understand, we are going to have a hard time educating the average consumer in the state of the role that railroads play. Our industry is so small I don't know how you overcome that. You can spend millions of dollars in public relations, advertising and trying to spread your story, but it's a vast audience we're trying to reach and it's going to be pretty hard to educate them.

Dave – Did we miss anything? Are there any topics you would like to bring up? Intermodalism was being discussed. Are there any topics like that you'd like to bring up briefly?

- As a city employee it seems like there are a lot of good stories out there about how a railroad company has done real positive things either at the request of the city or in partnership with the city, but they're also reverse stories where it's literally impossible to find someone to give an answer. It's always seemed to me as a bureaucrat that it would be really nice if the DOT or someone could take the lead in some way to expedite communications because those things are a problem from time to time. The better we can communicate, the better we are all going to be. I just know from my long years of service with the city that there's been some harsh words spoken about attempts to just communicate, finding the right person to communicate with.

Dave – A couple of times intermodal transportation has come up. We've talked about how the lack of knowledge about what's going on and the fact that we don't have that much activity going that's Iowa based. Anyone want to jump on that topic?

- I was involved in a study in Muscatine and there were a couple of things that pretty much killed any further pursuit. They were 1) lack of in-bound equipment because it's just too expensive to reposition there and 2) the rail freight cost to move equipment between Muscatine, Chicago just couldn't beat the trucking. Those were two obstacles with intermodalism in Iowa. We're so close to Chicago it's difficult to compete with the volume there. It's a shame because as discussed earlier, the ability to fully load those containers would be a great help to lots of shippers but the economics, unfortunately, just don't help us out.
- It might be worthwhile to recognize it doesn't have to be that way forever. Just the hours of service law changes in trucking could dramatically change the competitive nature of a round trip from Cedar Rapids to Chicago or Minneapolis or Kansas. I would hate to see the state give up on it, although there have been many attempts that haven't worked out because the high

cost involved in intermodal and the shortage of intermodal chassis makes it really tough. Iowa Interstate is the only one in the state from the shortline or regional standpoint that's involved in it, but it's a huge battle to create the awareness among local users. People within 100 miles of them probably don't even think about using it, so that is an area the state could probably do a lot of things to help. As an association I think that's what we have to do because it's pretty unusual as you look at all the truck activity in Cedar Rapids and Iowa City, that there's not an intermodal alternative. But in our discussions with the UP and BNSF, service doesn't allow them to stop at Cedar Rapids where the train is going from Chicago to Long Beach, California. There's no mechanism to get a few intermodal loads in that train, so there has to be a lot of volume that's going to be consistent everyday before there's any viability. I think if anyone ever does it, it's probably more likely someone like BN or a smaller regional. Didn't you say, Paul, that you're looking at a lot more of these opportunities than you have in the past?

- We've talked to a few states about short hauls, shuttle-type operations to California and Texas, but that would require a subsidy, either a capital or operating subsidy, capital meaning providing the rail cars or locomotives or the transfer to be performed. Iowa's length of haul is shorter than what we can get in Texas or California, so I think the economics and volumes to generate an intermodal facility is a long shot. You need trainloads loaded both ways going from a single origin to a single destination and the likelihood of that happening is fairly remote. On the other hand, it's a long shot. When it comes time to expand I-80, maybe Iowa, in conjunction with some other states, would look at a subsidized intermodal alternative as opposed to spending several hundred million or billion dollars to add new lanes to I-80.
- We're seeing huge centers being built for intermodal, like the one in Rochelle and Joliet, Illinois, producing a diverse conglomeration of intermodal, transloading, cross-docking, storage. It's hard to compete with that.
- That's where we have an opportunity. If your company wanted to load at Muscatine and get into this national network....we're working with an industry to try to find a way where they can load boxcars to Long Beach and into containers at that point. The whole cross-dock warehouse opportunity is there, but how do we tap into that Class 1 network economically to make it available to the customers in Cedar Rapids or Muscatine?
- That's the key, getting into that and making it cost effective because now we're still positioning that 40-foot container at your door, stuffing it there, and driving it back without the cross docking.
- The reason that they're building these mega places outside Chicago is because it's not in Chicago. Fifty miles versus 150 miles is almost insignificant. Economic development, absolutely. If it works there, it could

absolutely work here. Some of the traditional things in terms of intermodal is that it has to move immediately. There are folks who ship intermodally that don't need to have it there next day or three days from here to California. They just need some level of reliability in terms of getting it moved across country and getting it moved heavy. They can't compete overseas, with 40,000-42,000 pounds in a container that could hold 52,000 pounds. So how do we make what we have competitive? How do we make what we have desirable for Rochelle. Why couldn't it have been Muscatine? Why couldn't it have been some place close to the river? They did a good job of economic development in Illinois to move it out of Chicago. It's congested, it's dirty, it's a terrible place.

- Isn't it still close enough that they have inbound equipment, where we're at a real disadvantage because we don't have as much inbound to feed something where Rochelle's still close enough to Chicago that the entities are close.
- Do they know that the containers terminate in Chicago?
- A lot of them do.

Dave – Are there any other topics that we've missed?

- Truck competition was brought up at the last meeting. The rail industry is subjected to inspections by federal railroad administration officials for safety compliance on all our equipment. I think the state has some inspectors who check the condition of the track. When it comes to trucks there really isn't a similar mechanism to inspect the trucks that are running up and down the road the way the rail industry is inspected, from the safety standpoint. Safety, I think, is the key point here. The rail industry for years was known as a very dangerous occupation, our insurance rates are high, we have a lot of injuries within the industry. All that's changed substantially, especially the last ten years. The trucking industry has become notorious for the accidents and injuries they cause. Along I-80 and I-380, there were a number of incidents involving truck-related deaths. I think there should be a mechanism in place where the state takes a more active enforcement to make sure these trucks are inspected and the drivers are spot checked more often, for instance, the farmers who are bringing grain into town with trucks with three tires on the backend and no taillights, and overloads. At the last meeting when I mentioned overloaded trucks and somebody asked why the state wasn't called, there was a huge grain dealer in Cedar Rapids there who said he would be on the phone all day long. That's causing damage to the highways and I think there needs to be more of an involvement from the state on that issue.

- At the elevator where I deal, the DOT just sat there and read the scale and wrote you tickets. They don't even catch you on the road. Trucks need to be inspected.

Dave – Let's talk funding. If we were to go down the road to reestablishing some programs at the state level that would take some funding, seed money at least, what sources of funding do you think should be looked at for rail programs? What should be avoided at all costs? What types of funding structures would you like to see?

- The historical need for preserving rail in Iowa was to put money into the infrastructure, not just bailouts for companies. The rail, ties, and ballasts are what make the rail, it's up to the company to justify whether or not it can stay in business or not.

Dave – So you basically like that historical approach?

- A lot of our businesses wouldn't be here if IRFA hadn't financed the start-up of our businesses. There are some instances where you can't afford to commercially go out and get the equity or the mortgage you need to sustain a shortline railroad. Fortunately we are all a lot healthier than we were then and it makes a lot more sense to be able to build the infrastructure, but I wouldn't rule them out, particularly on acquisition of a branchline or something like that.
- Would you expect to do that with a different source of funds, though?
- You certainly have to justify the business plan.
- With the rest of the businesses out there, should rail funding be involved in infrastructure? If you want to start a railroad or build upon yours, should those funds come from some entity that's dealing with all kinds of businesses?

Dave – You mean like economic development?

- Right, where the expertise would be more geared toward making your business work rather than just throwing money at you.
- If you're justifying the low interest loan or the grant on the basis of highway savings, certainly the DOT would be the clearinghouse. There's no one who is going to get a paycheck from the state of Iowa that's going to stand up for the kinds of things we talked about today. We have the visionary DOT commissioners, who are long-range thinkers. When we go to the legislators and ask why there's no rail money, they say because it's not been asked for. If the director of the DOT and the Governor aren't going to allow the DOT to

ask for the money, how can we ask our legislators and senators to fund rail programs if there's not even a budget request? I think we have to get down to a basic issue here, you can have the most brilliant Commissioners in the world but if they have no power over the politics of the DOT, then we're preaching to a choir who can't do anything about it.

Dave – So you would be in favor of some kind of General Fund request for rail funding?

- It should be tied to the money spent in Iowa. One percent of the highway budget should automatically go to rail.
- The problem I see, from the city and bureaucrat's standpoint, is that everybody wants one percent. Can't we just have one percent? We have the historic preservation, we have the trail advocates, etc. Pretty soon you have 100 percent. There's nothing more to give.
- Give it to the people who can justify it on highway safety.
- For any other social issues we face, the state doesn't think twice about spending \$400M. in Iowa money, but you beg for \$1M. for rail and you look at the direct savings that rail brings to the Iowa economy. It has a probable 20-1 ratio in savings for every dollar you spend on rail.
- It comes down to education. We have a rail day on the Hill every year where we talk to folks. I bet if you asked the majority of those people what was going on in their local jurisdictions, they wouldn't know. There are folks in Cedar Rapids that don't even know what CRANDIC stands for. CRANDIC's been there since 1904. So I think the educational part of it is huge, because people don't know what to think about us because they don't know enough about us. Maybe a lobbyist is the answer too. The general public's perception of us is we block the crossings, we're dirty, we're noisy, and we just make life miserable on occasion. They don't understand what savings there are by having us in business. I think we need to do a better job. It's all the railroads working together. Some years we have 7,000-8,000 or more carloads of corn come into one of our clients and we have actual fluctuations of 7,000-10,000 carloads of corn. That's 3-4 trucks per carload not coming into Cedar Rapids and that's just us. The normal person in Cedar Rapids doesn't understand that, and I don't think our legislators understand it either.
- Who does understand it?
- That's the problem. We're a well-kept secret. We're asking for funding, maybe one percent, maybe one-half percent. It's not that our case isn't there, it's just that how do we take advantage of it?

Dave – Is the question what have you done for me lately?

- The rail is about like the farmers. The farmers are about two percent of the population, rail is a very small percentage of the population. You have to go out and get your story told. You've got to make them understand what you're there for, what you're about, and how you are helping the community.
- What state taxes do rails pay?
- Property tax, sales tax, diesel fuel tax. You name a tax and we pay it. That all goes into the General Fund. It doesn't come back to us, it goes to our competition.
- I think it reflects back on the transportation policy. The railroads are responsible for all the crossing maintenance, but the damage done to the road crossings are by snowplows, salt and trucks. A train going over the crossing doesn't disturb the crossing, in fact, it has very little effect on the crossing at all, but we're the ones who are responsible for it.

Dave – Are there some funding options you would really hate to see the state pursue?

- There 's much more competition for funding, much more need for a bigger pool of funds. We program through the state several million dollars a year, every year we have \$20-25M. worth of projects. We're programming \$2-2½M. so it's not easy to say let's set aside some of that money and look at railroad projects. I'm not saying it should be done, but it's going to be tough to make that jump. Right now we're at that point between roads and transit. Our transit people are having a tough time trying to make a case. It's totally different, but the point is they are part of the system and they are having a hard time accessing these funds.
- Maybe the approach you take is to get a percentage of the savings you bring to the state. If the shortlines and regionals in the state of Iowa save around \$39M. a year in road costs, give us ten percent of that back every year and we'd see huge benefits because it just keeps growing. It's a geometric savings to the state and that provides more funding we need in our communities. It's really true numbers, it's not smoke and mirrors.

Dave – You're hitting two of your issues—clarifying what the benefits of railroads are to the public and funding.

- There may be a case where state people need to keep our senators more informed at a federal level to get some federal dollars back. I'm thinking of Alaska. They decided to run that passenger train there and ended up with \$140M. every year for five years. They are rebuilding things just to spend the



money now. Maybe we need to start up passenger trains. I think there's a lot of money that comes out of Washington that could be made available to the Iowa if we just had the backing of our senators.

- We've talked a lot internally that Iowa has never had a better political opportunity at the federal level than we have right now with Senator Grassley and Harkin in key committees; Boswell on the railroad subcommittee; Nussle on the budget and Latham on appropriations. We've never had this consolidation of power in the state as we have now.
- We would like to see Iowa take the approach several other states have taken where the burden of crossing repair and maintenance is not borne by the railroad. We know a lot of places the railroad gets paid for the maintenance on the crossing and therefore they are maintained. Some railroads have 200 crossings. They have been deteriorating for 30 years and everyone wants them fixed today. It would take five times our annual revenue just to fix all the crossings on our railroads. Who's going to wait?
- One other thing when you mention crossings is the liability of the crossings from the railroad perspective. Yield signs and stop signs, where they are appropriate, help the general public avoid unsafe situations. And they need to be enforced.
- At the federal level I think there are at least some areas where there's predisposition of how money could be invested in roads through various programs. Getting Governor Vilsack to work with the two US senators to support things like tax credit financing and repealing the 4.3-cent a gallon tax would be positive. That's in the energy bill but that's problematic where that stands.
- Is the program the same every year? Is it being redefined? Do you go back and say why has it been turned down?
- One of the issues, up until about the last year, is a Davis-Bacon provision in every federal bill. This provision is a very strong labor protection thing that really doesn't mean anything to us because our wage rates are typically higher than the minimum, today anyway. In a Republican congress you can't get it to go through the Davis-Bacon provision. So this year the House Bill 876 is a provision for tax credits instead of grants and that has a much better chance of being passed. That has \$3.5B. for shortline rehabilitation as tax credit that can be assigned to a vendor, a customer or shipper or someone like that. That can have huge implications because it's in essence \$10,000 a mile per year that the shortlines or regionals could file as a tax credit. That's a lot of money.

- You mentioned the shortlines save the state \$39M. a year, in highway maintenance fees I presume. Does anybody have any sense of what kind of subsidy automobile drivers are providing for the truckers every year in the state of Iowa.
- AAA quantifies that, don't they? It must be enormous.

Dave - We have had a good discussion here and thank you very much for your input. This is the kind of discussion that was envisioned when we set up these meetings. Some good thoughts and good detail. I appreciate your taking your time to do this and I know your comments will be considered by Stu, Peggy and Craig.

Stu – If you have any thoughts that occur to you as you leave this meeting or in the next couple of weeks, on the last page of this brochure are both an e-mail address and a letter address. Please send any comments you have. This is the first of three focus group meetings we'll hold in December. The next step will be taking these comments to the Commission and developing a draft plan that has some specifics regarding stratification and future investment directions and policy decisions.